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Mich.'s Crestmark Helping Others Retain Clients

BY MARISSA FAJT

Unlike most banks, Crestmark Bank never set out to build long-term relationships with its customers.

Instead, the Troy, Mich., asset-based lender has built its business model around other banks' handing over clients that do not meet their credit standards. The 10-year-old Crestmark gets about 80% of its business from other banks, which usually hang on to the deposit relationships.

Its typical customer is a young or troubled company that borrows on its accounts receivable, for which Crestmark assumes collections. Dave Tull, the bank's chief executive officer, said its goal is to help borrowers build their credit standing so they can move into a more traditional banking relationship within three years.

"We don't compete with local banks — we're more a partner to complement them," Mr. Tull said.

Its business strategy, though, means it must continually replace customers — about one-third of its customer base turns over each year — and that means expanding into new markets. Crestmark has offices in seven cities from Michigan to Florida. Mr. Tull said it plans to move into Cleveland this year and is eyeing an expansion into the Dallas area by the end of next year.

"We are always looking for new producers or new markets that fit with our niche," he said.

The \$144 million-asset Crestmark does not keep cash or use tellers, and it is funded exclusively through Internet-advertised cash deposits, Mr. Tull said. Its certificate of deposit rates are usually among the 20 highest in the nation, and Crestmark takes no more than \$200,000 from one investor, so its investor base is diversified.

The strategy has worked well.

Though it generally has higher chargeoffs and funding costs than other banks, its net interest margin and return on assets and equity are significantly above industry averages. In the first quarter its net interest margin was 13.6%, compared with the average of 4.27% for commercial banks with \$100 million to \$300 million of assets, according to Federal Deposit Insurance Corp. data. Its 1.68% return on assets was nearly 50 basis points above the average, and its 13.88% return on equity was more than 200 basis points above the average.

Moreover, Mr. Tull said, "if we continue the way we are currently running," this year "will be the fifth year [in a row] we will see 20% or better earnings-per-share growth."

Robert Sewick, the president and chief executive of the \$165 million-asset West Michigan Community Bank in Hudsonville, said working with Crestmark has improved his bank's customer relations.

"If we can't handle a customer's financial needs, rather than decline that customer, we can bring in a specialist like

Crestmark to facilitate that funding need," Mr. Sewick said. "This differentiates us from our competition that might turn down a request and do nothing else. We are going one step further."

West Michigan can choose whether to participate in the credit or turn it over completely to Crestmark, Mr. Sewick said. Often the customer maintains deposit accounts with West Michigan, he said.

Joel Rahn, the senior vice president for commercial lending at the \$618 million-asset Byron Bank in Byron Center, Mich., said working with Crestmark also helps his bank retain customers. "It helps because it gives an alternative to us throwing up our hands and saying, 'Can't help you.'"

Many owners of small and midsize businesses are unaware of all the financing options available to them, and they rely on their community bank for guidance, Mr. Rahn said.

"Having a bank like Crestmark that focuses on higher-risk turnaround situations helps customers, and it helps us in terms of helping our customer," he said.

Aside from the Michigan offices in Troy and Grand Rapids, Crestmark has offices in Chicago, Cincinnati, Atlanta, Richmond, Va., and West Palm Beach, Fla.

It entered Florida in 2001 when it bought a nonrecourse factoring business from Wachovia Corp., and it moved into Virginia in 2004, when it bought an asset-based lender there. ■



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